



DEPARTMENT OF STATE
WASHINGTON

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PI

May 22. 1940

In reply refer to
FE893.114 Narcotics/2746

STRICTLY CONFIDENTIAL

Attention: Customs Agency Service

JNB
The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses herewith, in duplicate, for the strictly confidential information of the Treasury Department, a copy of despatch no. 144, dated March 11, 1940, from the American Consulate General at Canton, in regard to the narcotic situation in Canton and vicinity.

There is also enclosed herewith a package containing five sample heroin pills which were forwarded with the enclosed despatch.

It will be noted that the Consulate General is in error in referring in the second paragraph on page six to codeine as a non-opium derivative and in making the statement that the "so-called 'esters' have never achieved popularity with narcotic addicts in South China".

Enclosures:

From Consulate General, Canton,
no. 144, March 11, 1940, in duplicate.

Package containing five sample heroin pills.

Per Memo to Consulate General - Tell him I kept one pill JNB

American Consulate General,

Canton, China, March 11, 1940.

STRICTLY CONFIDENTIAL

Traffic in Opium and other Narcotics in
the Canton Area.

The Honorable

The Secretary of State,
Washington.

Sir:

I have the honor to submit for the information of the Department a resume of available data concerning the situation in regard to opium and other narcotics in Canton and vicinity.

While the traffic in narcotics openly flourishes in Canton, reliable data concerning its support, the disposition of the proceeds, and the actual connection between ostensible operators and others are most difficult to obtain, the secrecy maintained by those responsible for the trade being augmented by misleading publicity and propaganda in the Japanese controlled press. The following comments are based on information procured from many sources, including doctors, Chinese closely connected with the Japanese and with the puppet regimes, personal observation of officers, conversations with a foreign observer at Macao and many others and are believed to embody a reasonably reliable description of the traffic.

The Japanese occupied Canton in the latter part of October, 1935 after practically the entire population had fled and the "scorched earth" policy had been thoroughly

applied to the city. For several months thereafter Canton was a ghost city inhabited by only a few thousands of coolies, beggars and the lowest class of the normal population. Under these conditions, although opium and some heroin were sold openly, there was little opportunity for profit from the trade and it was confined mostly to the sale of cheap opium drugs. Although the Japanese authorities made no effort to control the traffic they did not, during the first phase of the occupation, apparently take any interest in its direction.

Organization of the Traffic:

In early 1939 relatively improved conditions of law and order and economic pressure on many who had fled from the city resulted in a marked increase in the population and the return of many of the lower middle class. In May, 1939 a concern called Fuk Man Tong (福民堂) was organized for the distribution of opium. Although the local regime announced that this firm had been granted a monopoly for import, sale and distribution of opium, no form of control over the firm's activities was indicated until September when it was announced that the Fuk Man Tong would operate the monopoly under the control of the city government. The Fuk Man Tong is said to have been organized by Chan Shi-chai (陳思齊), a Formosan Chinese, in close cooperation with the Special Service Section of the Japanese Military Headquarters. It is said that Chan was granted the monopoly for two years for a reputed consideration of 200,000 yen (military notes)* which supposedly remained with the Special Service Section. In addition to the initial price,

*One military yen is now the equivalent of approximately US\$0.104.

price, a sum of \$1,000 per month was payable to the Section by the Fuk Man Tong.

Revenue:

In addition to the payments made to the Japanese military by the monopoly, the latter is understood to obtain from dealers and retailers (appointed by the monopoly) the following fees:

Raw opium dealers (7)	\$100 per month \$5,000 "deposit".
Cooked opium dealers (10)	\$100 per month \$2,000 "deposit".
Licensed Retailers (dens) (329)	\$10 per month \$30 "deposit".

After the foregoing fees are paid a "tax" of 30 sen per tael (1-1/3 ounces) of opium consumed in each den is collected. While accurate information as to consumption is unavailable it is reported that about 129,000 taels of the drug were sold in the two month period of October and November, 1939. It will thus be seen that, exclusive of profits on the sale of the opium itself a monthly revenue of about \$22,650 is obtained from its distribution in Canton city itself. Seven agencies of the monopoly are reported to have been set up in the populous nearby districts of Namhei, (containing the large city of Fatchan), Fungyu, Shuntak, Sunwui, Tsengching, Fungkun and Samahui. No information as to the number of dealers, dens or amount of sales for these districts is available but it may be conservatively estimated that the consumption in all the districts mentioned would be at least double that of Canton city itself.

The revenues described in the foregoing paragraph are

underestimated

understood so far to have gone exclusively to the Special Service Section of the Japanese Army and to have been put into a "special fund". It is understood, however, that at the present time consideration is being given to permitting the local "puppet" government to collect the revenue under reference, presumably to retain at least a portion of it, the Special Service Section presumably to continue to receive the profits from the import and sale of the drug to the monopoly.

Prices:

The Special Service Section is said to be selling raw Persian opium at the present time to the monopoly at ¥18,000 per case of 160 lbs., which in turn sells it to raw opium dealers at ¥25,000 per case. The price to dens charged by the dealers at ¥100 per pound or ¥31,680 per case.

Prepared opium is said to be made only by the Fuk Man Tong which sells it for ¥16.92 per tael to dealers who in turn sell it to dens for ¥18 per tael. The authorized price to smokers is ¥80 per tael but many dens are said to be selling the opium at slightly over cost to them as the margin of profit is increased considerably by the sale of drugs. Dens are said to make over 25% profit.

Source of Supply:

Although it is not possible to state with accuracy how the local supply is obtained, an observer in Macao has reported that Japanese military officers from Canton are frequent visitors at the Macao opium monopoly and it is believed that early supplies came mainly from that port. It is said that the first

direct

direct shipment from Persia was brought by the Mitsui Bussan Kaisha from Persia to Shanghai and there transhipped to Canton by military transport in January 1940. This shipment was said to consist of 200 - 100 lb. cases. It is reported that future supplies will probably be obtained in a similar manner.

Control of Addicts:

So far as can be learned no regulation or control of addicts exists and narcotics may be freely purchased by anyone. There is no registration of addicts.

Derivatives:

At most of the opium dens, heroin pills may be purchased at 20 sen each. These are stated to come from Massao. The connection of the monopoly or the Japanese authorities with heroin traffic does not appear clear. As far as can be learned no license fees or taxes are collected from the sellers of heroin, although the drug is freely and openly sold without any interference from the authorities. It is apparently purchased by the dealers without intervention of the monopoly although it is considered likely that individuals connected with the monopoly are the principal suppliers. It has been suggested that heroin is considered at this time by those in control of the traffic as a means of enabling individuals to acquire additional perquisites. There is no means of ascertaining the extent of addiction to this drug although it must be considerable. The drug as sold here is said to be crudely manufactured and adulterated. ~~As of possible interest five-~~

~~sample~~

1/- sample heroin pills of the type everywhere available are enclosed.

Morphine, in the opinion of most observers, is quite rare in Canton, the price when available being said to be exorbitant..

Narcotics other than the opium derivatives appear to have no popularity although American physicians have found cocaine and codeine (said to be of Japanese origin) freely purchasable without formality at low prices in Japanese drug shops. The so-called "ectars" have never achieved popularity with narcotic addicts in South China.

POPPIE CULTIVATION:

Unconfirmable but probably accurate information indicates that since the latter part of 1935 rather extensive cultivation of poppies has been started in the Tsungtsi (從化) and Funya (雲浮) districts. It is said that over 2,400 mu (roughly 500 acres) are nearly ready for harvesting in the latter district. A tax of 200 per mu is said to be imposed by the local regime. No information as to the probable means of marketing these crops is available nor is it known whether cultivation has been instigated or voluntary.

OPPIUM:

There exist 500 licensed opium dens and probably one or two hundred clandestine dens, the latter mostly dealing in drugs except probably a very few dealing in high quality prepared opium smuggled from abroad. Based on estimated daily sales to fifty customers by an average den, the total

number of daily purchasers of the drug in Canton would be at least 20,000. Rough but probably conservative would be an estimate of daily consumption of 50 lbs. of opium valued at approximately ¥10,000 in Canton city. The consumption in other nearby districts is probably in like proportion.

It would appear from available information that the traffic is controlled and consumption encouraged by the Special Service Section of the Japanese Army.

Although it is now said that at least part of the licensing revenues will be turned over to the puppet Chinese government, all indications are that the lion's share of the lucrative traffic goes to the somewhat mysterious Japanese "special funds". Licensing and taxing revenues in the city of Canton alone are about ¥50,000 per month, and sales in the city itself probably much more than ¥300,000 per month. It appears safe to conjecture from the well known Japanese attitude towards the drug traffic and the completely negative economic gains achieved in the occupied areas of Kwangtung that the traffic will be continued and stimulated as the best possible source of an easy and continuous flow of funds into the military coffers.

Respectfully yours,

H. S. Myers
American Consul General.

Enclosure:

1/- Sample heroin pills, as stated.

Original and four copies to Department.

One copy to Embassy, Peiping.
" " " " Chungking.
" " " " Tokyo.

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RCK/ew

Approved
by
Special Agent
in Charge
L. L.